

common trust funds completed on or after May 2, 1996.

[T.D. 6500, 25 FR 11737, Nov. 26, 1960, as amended by T.D. 6651, 28 FR 4950, May 17, 1963; T.D. 7935, 49 FR 1695, Jan. 13, 1984; T.D. 8662, 61 FR 19546, May 2, 1996; 61 FR 39072, July 26, 1996]

**§ 1.584-5 Returns of banks with respect to common trust funds.**

For rules applicable to filing returns of common trust funds, see section 6032 and the regulations thereunder.

**§ 1.584-6 Net operating loss deduction.**

The net operating loss deduction is not allowed to a common trust fund. Each participant in a common trust fund, however, will be allowed the benefits of such deduction. In the computation of such deduction, a participant in a common trust fund shall take into account its pro rata share of items of income, gain, loss, deduction, or credit of the common trust fund. The character of any such item shall be determined as if the participant had realized such item directly from the source from which realized by the common trust fund, or incurred such item in the same manner as incurred by the common trust fund.

**§ 1.585-1 Reserve for losses on loans of banks.**

(a) *General rule.* As an alternative to a deduction from gross income under section 166(a) for specific debts which become worthless in whole or in part, a financial institution to which section 585 and this section apply shall be allowed a deduction under section 585(a) (or, for taxable years beginning before January 1, 1987, section 166(c)), for a reasonable addition to a reserve for bad debts provided such financial institution has adopted or adopts the reserve method of treating bad debts in accordance with paragraph (b) of § 1.166-1. In the case of such a taxpayer the amount of the reasonable addition to such reserve for a taxable year beginning after July 11, 1969, shall be an amount determined by the taxpayer which does not exceed the amount computed under § 1.585-2. Such reasonable addition for the taxable year shall be an amount at least equal to the amount provided by § 1.585-2(a)(2). For each taxable year the

taxpayer must include in its income tax return (or amended return) for that year a computation of the amount of the addition determined under this section showing the method used to determine that amount. The use of a particular method in the return for a taxable year is not a binding election by the taxpayer to apply such method either for such taxable year or for subsequent taxable years. A financial institution to which section 585 and this section apply which adopts the reserve method is not entitled to charge off any bad debts pursuant to section 166(a) with respect to a loan (as defined in § 1.585-2(e)(2)). Except as provided by § 1.585-3, the reserve for bad debts of a financial institution to which section 585 and this section apply shall be established and maintained in the same manner as is provided by section 585 (or, for taxable years beginning before January 1, 1987, section 166(c)) and the regulations under section 166 with respect to reserves for bad debts. Except as provided by this section, no deduction is allowable for an addition to a reserve for losses on loans as defined in § 1.585-2(e)(2) of a financial institution to which section 585 and this section apply. For rules relating to deduction with respect to debts which are not loans (as defined in § 1.585-2(e)(2)), see section 166(a) and the regulations thereunder. For rules relating to a debt evidenced by a security (as defined in section 165(g)(2)(C)), see sections 166 and 582(a) and the regulations thereunder. For the definition of certain terms, see paragraph (e) of § 1.585-2. For rules relating to a transaction to which section 381(a) applies, see § 1.585-4. For rules relating to large banks, see §§ 1.585-5 through 1.585-8.

(b) *Application of section—(1) In general.* Except as provided in paragraph (b)(2) of this section, section 585 and this section apply to the following financial institutions—

(i) Any bank (as defined in section 581 and the regulations thereunder) other than a mutual savings bank, domestic building and loan association, or cooperative bank, to which section 593 applies; and

(ii) Any corporation to which paragraph (b)(1)(i) of this section would apply except for the fact that it is a